

## PROSPECTUS DATED DECEMBER 30, 1969

No securities commission or similar authority in Canada has in any way passed upon the merits of the shares offered hereunder and any representation to the contrary is an offence.



NEW ISSUE:

## FRANCANA OIL & GAS LTD.

(Incorporated under the laws of Canada)

**700,000 common shares**  
(Without nominal or par value)

**Price: \$5.00 per share**

	Price to Public	Proceeds to Underwriter	Proceeds to Company (1)
Per Share	\$5.00	\$ .40	\$4.60
Total	\$3,500,000	\$280,000	\$3,220,000

(1) Before deduction of estimated expenses of \$50,000.

### THESE SHARES MAY BE CONSIDERED TO BE SPECULATIVE

Reference is made to the headings "Business of Francana," "Properties," and "Plan of Distribution" on pages 3, 4 and 10 respectively. There is no market for the shares offered. The purpose of this issue is to provide funds for exploration and development of the properties held by Francana Oil and Gas Ltd. ("Francana") and the possible acquisition of further oil and gas rights.

Application has been made to list the shares of Francana on The Toronto Stock Exchange and the Montreal Stock Exchange. Acceptance of listing will be subject to the filing of required documents and evidence of satisfactory distribution, both within 90 days.

We, as principals, offer these shares, subject to prior sale, if, as and when issued by Francana and accepted by us and subject to the approval of all legal matters on behalf of Francana by Messrs. Pitblado, Hoskin & Company, Winnipeg and on our behalf by Messrs. Saucier, Jones, Peacock, Black, Gain, Stratton & Laycraft, Calgary, who may rely on the opinion of Counsel for Francana in respect to corporate matters.

It is expected that definitive share certificates will be available on or about January 27, 1970.

## RICHARDSON SECURITIES OF CANADA



HEAD OFFICE: WINNIPEG, MANITOBA

VICTORIA, VANCOUVER, PRINCE GEORGE, CALGARY, EDMONTON, LETHBRIDGE, MEDICINE HAT, SWIFT CURRENT, SASKATOON, MOOSE JAW, REGINA, BRANDON, WINNIPEG, KENORA, WINDSOR, CHATHAM, SUDBURY, LONDON, KITCHENER, GALT, SARNIA, SIMCOE, HAMILTON, TORONTO, KINGSTON, OTTAWA, MONTREAL, QUEBEC CITY, FREDERICTON, SAINT JOHN, MONCTON, SUMMERSIDE, CHARLOTTETOWN, DARTMOUTH, HALIFAX, LONDON (ENGLAND), FRANKFURT (W. GERMANY), HONG KONG.

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## FRANCANA

Francana Oil & Gas Ltd. ("Francana") was incorporated under the laws of Canada by letters patent dated December 8, 1952 under the name of Francana Enterprises Limited. Supplementary letters patent dated November 30, 1959 were issued to Francana changing its name. By supplementary letters patent dated January 25, 1967 the authorized share capital of Francana was reconstituted to consist of 500,000 common shares without nominal or par value of which 211,650 shares were issued and fully paid as of June 30, 1969. Supplementary letters patent dated August 20, 1969 were issued to Francana reorganizing its authorized capital by: (i) subdividing each common share whether issued or unissued into 20 common shares, resulting in an authorized capital of 10,000,000 common shares of which 4,233,000 shares were outstanding immediately prior to this financing as fully paid and non-assessable shares; and (ii) authorizing 14,000 5% Cumulative Redeemable Convertible Preferred Shares of par value \$100 per share all of which are outstanding as fully paid and non-assessable. By the same supplementary letters patent Francana was converted into a public company.

Francana's head and principal office is located at 401 Pacific 66 Plaza, 700 - 6th Avenue S.W., Calgary, Alberta.

## BUSINESS OF FRANCANA

Francana is engaged in the business of exploration for and development and production of oil and natural gas in Canada and also in other areas of the Western Hemisphere. Francana has holdings or is engaged in exploration for oil, natural gas and other minerals in British Columbia, Alberta, Saskatchewan, the Gaspé Peninsula in Quebec, offshore Nova Scotia, offshore Newfoundland, the Arctic Islands and the Northwest Territories. In addition, Francana produces oil and natural gas from its reserves in Saskatchewan and Alberta.

## HISTORY OF FRANCANA

Francana was incorporated in 1952 as a wholly-owned subsidiary of Credit Foncier Franco-Canadien. In 1959 Francana became active in exploration and since then it has operated successfully as an independent oil company. Its exploration efforts have resulted, among other things, in the discovery of four oil pools in Saskatchewan at Willmar, East Battrum, Parkman (Tilston Beds) and Carduff (Souris Flats), and a gas pool at Cessford in the central plains of Alberta. Approximately 90% of Francana's production income is derived from these five pools.

Since December 22, 1966 Hudson Bay Mining and Smelting Co., Limited ("Hudbay") has controlled Francana through ownership of 60% of the outstanding common shares. Hudbay's interest in Francana was purchased from Credit Foncier Franco-Canadien. The remaining 40% is owned by Francana Development Corporation Ltd., which itself is owned 60% by Credit Foncier Franco-Canadien and 40% by Anmercosa Investments Limited, a wholly-owned subsidiary of Anglo American Corporation of Canada Limited, which has a 27.6% interest in Hudbay. See also "Principal Holders of Common Shares" on page 15. After completion of this financing, Hudbay will continue to own 51.5% of the outstanding common shares. Hudbay has informed Francana that it does not presently intend to dispose of any common shares of Francana.

It is the present intention of the management of Hudbay that Francana will represent Hudbay in the oil and gas business. Decisions relative to the development of mineral properties (exclusive of oil and gas) explored by Francana will be made by the management of Francana in cooperation with the management of Hudbay. The interests of Francana and Hudbay will not conflict, as any transfer of rights between the companies will be made at fair market value.

In February 1966 Francana entered into an agreement whereby it undertook to provide the financing and management required to prove up a potash deposit situated near Rocanville, Saskatchewan and, under

certain conditions, to bring the property into production. In July 1967, when the potash deposit was proven to be of an economic grade and tonnage, Francana's interest in the potash project was sold to a subsidiary of Hudbay relieving Francana of all obligations in connection therewith. The property is now being brought into production as a division of Hudbay. See also "Interest of Management and Others in Material Transactions" on page 13.

#### Reserves

James A. Lewis Engineering Co. Ltd., 736 - 8th Avenue S.W., Calgary 2, Alberta, in a report dated July 21, 1969 (confirmed December 17, 1969) has estimated that Francana's net reserves and their present worth after deduction of all royalty and overriding royalty interests as of June 30, 1969 were as follows:

	Proven Reserves (1)	Probable Reserves (2)	Total Reserves	Estimated Value Undiscounted	Estimated Present Worth Value at 6% Discount Rate	Estimated Present Worth Value at 9% Discount Rate
Crude Oil (barrels) -----	10,989,600	4,110,600	15,100,200	\$24,609,000	\$15,388,200	\$12,998,800
Natural Gas (MMcf) -----	24,247	—	24,247			
Natural Gas Liquids (barrels) -----	126,200	—	126,200	4,421,100	2,394,600	1,879,300
Sulphur (long tons) -----	8,740	—	8,740			
				\$29,030,100	\$17,782,800	\$14,878,100

#### NOTES:

- (1) "Proven reserves" are considered to be those reserves which, to a high degree of certainty, are recoverable at commercial rates under present depletion methods and current operation conditions, prices and costs.
- (2) "Probable reserves" are considered to be those reserves commercially recoverable as a result of the beneficial effects which may be derived from the future institution of some form of pressure maintenance, or other secondary recovery method, or as a result of a more favourable performance of the existing recovery mechanism than that which would be deemed proven at the present time, or those reserves which may be reasonably assumed to exist because of geo-physical or geological indications and drilling done in regions which contain proven reserves.

The above mentioned estimates of present worth, undiscounted and discounted, do not necessarily reflect the fair market value of such reserves if the properties were to be sold.

James A. Lewis Engineering Co. Ltd. has stated that approximately 88% of Francana's 10,989,600 barrels of proven reserves are located in Battrum, Willmar and Carnduff. The Battrum and Willmar units are under full-scale water injection operation, while the majority of the reserves attributable to the Willmar non-unit and Carnduff reservoirs are producing under an active water drive. Two-thirds of the total 24,246,800 Mcf of gas reserves are located in the vicinity of the North Cessford gas plant which is wholly-owned by Francana.

James A. Lewis Engineering Co. Ltd. forecasts Francana's cumulative net revenue from these proven reserves of crude oil, natural gas, natural gas liquids and sulphur to be \$22,132,800 after deduction of estimated operating costs and future capital expenditures required to produce these reserves. This net revenue was estimated to have a present worth value of \$14,814,300 using a 6% annual discount rate and a present worth value of \$12,707,900 using a 9% annual discount rate. The cumulative future net revenue from the probable crude oil reserves was estimated to be \$6,897,300 which has a present worth value of \$2,968,500 using a 6% annual discount rate and a present worth value of \$2,170,200 using a 9% annual discount rate.

These estimates of future income and reserves as of June 30, 1969 are contained in a report dated July 21, 1969 (confirmed December 17, 1969) made by James A. Lewis Engineering Co. Ltd. Copies of this report are on file at the principal office of Francana and at the offices of the Securities Commissions of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario and are available for public inspection. A copy has also been filed with the Quebec Securities Commission.

#### Oil and Gas Wells

As of October 31, 1969 Francana held varying interests in unit and non-unit oil and gas wells equivalent to 62.950 net working interest oil wells and 7.530 net working interest gas wells as follows:

	Participating Interest (In Units) %	Wells			
		Oil		Gas	
		Gross	Net (2)	Gross	Net (2)
<b>A. Unitized Oil Fields</b>					
Alameda East Unit	2.78542	51	1.42	—	—
Battrum Unit No. 4	75.00000	9	6.75	—	—
Glen Ewen Unit	19.42865	46	8.94	—	—
Midale Unit	0.14637	297	0.43	—	—
Rapdan Unit	2.46507	26	0.64	—	—
Willmar Unit No. 1	43.41500	22	9.55	—	—
Sub-total		451	27.73	—	—
<b>B. Non-unitized Oil Fields</b>					
Carnduff (Souris Flats)	—	11	10.00	—	—
Parkman	—	4	4.00	—	—
Queensdale	—	3	2.00	—	—
Willmar non-unit	—	22	12.90	—	—
Other	—	8	3.45	—	—
Sub-total		48	32.35	—	—
<b>C. Oil Wells (Royalty Interest) (1)</b>					
Unitized:					
Alameda East	0.77492	51	0.400	—	—
Glen Ewen	1.63012	46	0.750	—	—
Non-unitized:					
Alameda	—	1	0.150	—	—
Carnduff (Souris Flats)	—	2	0.325	—	—
Hastings	—	7	0.975	—	—
Willmar	—	3	0.170	—	—
Viewfield	—	1	0.100	—	—
Sub-total		111	2.870	—	—
<b>D. Gas Wells (Working Interest)</b>					
Unitized:					
Cessford Unit No. 1	1.64820	—	—	42	0.690
Non-unitized:					
Cessford Plant	—	—	—	6	6.000
Quirk Creek (3)	—	—	—	7	0.036
Zama	—	—	—	1	0.188
Crowfoot	—	—	—	1	0.500
Sub-total		—	—	57	7.414
<b>E. Gas Wells (Royalty Interest) (1)</b>					
Unitized:					
Nevis Unit	0.050366	—	—	16	0.008
Seven Persons Creek	0.152723	—	—	12	0.018
Non-unitized:					
Berry Creek	—	—	—	4	0.090
Sub-total		—	—	32	0.116
<b>GRAND TOTALS</b>			62.950		7.530

NOTES:

- (1) Royalty interests held by Francana grant it a percentage share of the gross proceeds of production varying from  $\frac{1}{2}\%$  to 20% without any deductions for costs of exploration, development, operating, royalty or maintenance. All such costs are borne by third parties which hold the working interests in the lands concerned. A net royalty interest well represents the right to the equivalent of 100% of production from a well. As a portion of Francana's royalty interests are based on sliding scale varying with production rate, the number of royalty interest wells is an approximation.
- (2) Net working interest wells as shown include the total fraction of the working interest in each well owned by Francana, which is still subject to payment of royalty and operational charges.
- (3) Francana has a net carried interest from which it derives revenue after all drilling and development costs are paid.

## Oil and Gas Production

The following table sets forth Francana's net sales of oil and gas before deduction of royalties for the five years and ten months ended October 31, 1969:

Period	Barrels of Oil	Average Production Rate During Period (Bbls./day)	Million Cubic Feet of Gas	Average Production Rate During Period (MMcf/day)
January 1, 1964-December 31, 1964	940,684	2,577	683	1.9
January 1, 1965-December 31, 1965	859,675	2,355	1,739	4.8
January 1, 1966-December 31, 1966	843,914	2,312	1,493	4.1
January 1, 1967-December 31, 1967	878,219	2,406	1,427	3.9
January 1, 1968-December 31, 1968	879,048	2,408	1,316	3.6
January 1, 1969-October 31, 1969	753,153	2,477	1,235	4.1

Wherever appropriate Francana acts as the operator of properties in which it has a substantial interest. Francana is the operator and manager of Willmar Voluntary Unit No. 1 and Battrum Unit No. 4 from which approximately 35% of Francana's oil income is derived and in which 59% of its proven oil reserves are located. In addition Francana operates some 51 non-unit oil and gas wells, in which its interests vary from 40% to 100%, and its wholly-owned gas plant in North Cessford, Alberta.

All of Francana's oil producing properties are located in Saskatchewan and therefore their production is not presently restricted by provincial government prorationing. Francana sells substantially all of its crude oil at the well head at posted field prices in effect in the various fields. The average price received by Francana for its crude oil during the first ten months in 1969 was \$2.39 per barrel.

Francana has entered into long-term gas contracts with Trans-Canada Pipe Lines Limited providing for the purchase of substantially all its gas reserves. The average price received by Francana for the gas, including by-products, delivered to Trans-Canada Pipe Lines Limited was 15.4¢ per Mcf during the first ten months in 1969.

## Non-Developed Petroleum and Natural Gas Acreage

As of June 30, 1969 Francana held, under permits, reservations, leases, options and other rights, 6,245,304 gross acres equivalent to 2,595,443 net acres of petroleum and natural gas rights principally in the Arctic Islands, the Mackenzie River area of the Northwest Territories, Saskatchewan, Alberta, British Columbia, Manitoba, Quebec, offshore Nova Scotia and offshore Newfoundland. The approximate gross and net acreage interest of Francana in these holdings listed by location and type of holding is as follows:

Geographical Area	Type of Ownership	Gross Acres (1)	Net Acres (1)
Arctic Islands	(2) Permit	1,939,663	1,782,353
Northwest Territories including Mackenzie River area	(2) Permit	519,298	62,316
British Columbia	(3) Lease	3,824	1,340
Alberta	(2) Permits, (3) Leases and (5) Fee Simple Rights	103,129	45,075
Saskatchewan	(2) Permits, (4) Reservations, (3) Leases and (5) Fee Simple Rights	276,387	186,613
Manitoba	(3) Leases and (5) Fee Simple Rights	19,293	18,653
Quebec: Gaspé Peninsula	(2) Permit	268,800	134,400
Nova Scotia: Cape Breton, offshore	(2) Permit	262,513	32,814
Nova Scotia: Cape Breton, offshore	(2) Option to Acquire Permits	1,865,000	233,196
Newfoundland, offshore	(2) Permit	986,831	98,683
		6,245,304	2,595,443

NOTES:

- (1) "Gross Acres" represents the acreage in which Francana has any interests. "Net Acres" represents the aggregate of the interests of Francana in the Gross Acres.
- (2) Regulations governing these permits differ to some extent in various areas. The basic procedure is that a company may acquire, either through application or through competitive bidding, a permit covering substantial blocks of Crown lands. Such permits confer upon the holder thereof the right to lease the petroleum and natural gas rights under a specified percentage of the permit area. Leases, if desired, must generally be selected on discovery of production or before expiration of the permit. Approximately 50% of the acreage shown as permit acreage can be converted to leases, the balance then reverting to the Crown.
- (3) Crown lease regulations differ to some extent in the various jurisdictions but in general confer on the lessee the right to remove all hydrocarbons and related substances subject to payment to the Crown of specified royalties on production and an annual rental of \$1.00 per acre. Royalty rates now in effect under Crown leases in Alberta on crude oil are on a sliding scale basis, ranging from 8% to 16% of production; on natural gas liquids and sulphur, 16% of production; and on natural gas, the greater of 16% of the proceeds of production or  $\frac{3}{4}$ ¢ per thousand cubic feet (Mcf). Royalty rates in other jurisdictions are generally comparable to those in Alberta.  
Freehold petroleum and natural gas leases normally carry a flat 12½% royalty on crude oil, natural gas liquids, sulphur, and natural gas. Such freehold leases are also subject to an annual rental, usually at a rate of \$1.00 per acre.
- (4) A reservation or drilling reservation grants the right, licence, privilege and authority to explore the lands therein described for oil and gas. Following a discovery of oil or gas the reservation holder generally has the further right to obtain a lease of up to 50% of the lands subject to the applicable regulations.
- (5) "Fee Simple" indicates that the rights are held under perpetual title.
- (6) In addition, applications for oil and natural gas exploration permits have been made on behalf of Francana in association with others to the Government of Panama for 1,022,290 gross acres, equivalent to 127,786 net acres to Francana.
- (7) Arctic Islands permits are committed to the program of Panarctic Oils Ltd., whereby they can earn up to 85% working interest. See further description under the subheading "Current Program" on page 8.

An evaluation of the non-developed petroleum and natural gas acreage as of June 30, 1969 is contained in a report dated July 21, 1969 (confirmed December 17, 1969) made by James A. Lewis Engineering Co. Ltd. Copies of this report are on file at the principal office of Francana and at the offices of the Securities Commissions of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario and are available for public inspection. A copy has also been filed with the Quebec Securities Commission.

## EXPLORATION AND DEVELOPMENT

### Policy

Francana's policy is to participate actively in the evaluation of a large number of exploration prospects in a variety of geologically attractive areas so as to obtain the maximum exposure at the minimum cost. This policy is implemented by having Francana's own geological and geophysical staff identify interesting areas and prospects with a view to acquiring specific lands and bringing in partners for future work. The staff also evaluates the ideas of other parties with a view to having Francana participate with them in exploration work. In this way Francana develops drilling prospects on its own lands that it will drill or will be drilled by others at no cost or at a reduced cost to Francana with Francana retaining a net working interest or royalty position. Francana also participates with others in the acquisition of lands, either Crown or freehold, proven or unproven and it takes and grants farm-outs. All of these activities enable Francana to participate to varying degrees, depending on the economics of the prospect in question, in the drilling of a significant number of wells.

Francana's exploration program has resulted in the discovery of oil and gas reservoirs which currently yield approximately 90% of its production income.

### Drilling and Land Acquisition

During the period January 1, 1969 to October 31, 1969 Francana drilled or participated in the drilling of 12 wells corresponding, after deducting the interest held by others, to 5.95 net wells. The program produced 2.9 net oil wells, 0.5 net gas wells and 2.55 net dry holes. Fourteen additional wells were drilled at no cost to Francana on lands farmed out to others and resulted in 0.55 net oil wells to Francana. A further 6 wells were drilled as option-earning wells on lands offsetting Francana lands. Of these, 3 were completed as oil wells, 1 as a gas well and 2 were dry holes. Francana had no direct interest in this latter group of wells. They did, however, serve to evaluate Francana lands.

Particulars of Francana's drilling and exploration activities and the amounts spent on lease and permit acquisition during the last five years and ten months are as follows:

<u>Period</u>	<u>Number of Completed Oil Wells</u>	<u>Number of Completed Gas Wells</u>	<u>Number of Dry Holes</u>	<u>Drilling and Exploration Expenditures (1)</u>	<u>Lease and Permit Acquisition Expenditures</u>
January 1, 1964-December 31, 1964	4	4	14	\$553,065	\$108,228
January 1, 1965-December 31, 1965	3	—	17	521,552	306,638
January 1, 1966-December 31, 1966	8	—	8	538,274	93,808
January 1, 1967-December 31, 1967	5	—	13	666,715	585,320
January 1, 1968-December 31, 1968	1	—	8	608,620	653,620
January 1, 1969-October 31, 1969	4	1	7	417,047	399,253

#### NOTES:

- (1) Drilling and exploration expenditures include drilling costs for wells completed as producing wells.
- (2) In addition to the above, an aggregate of 41 wells were drilled during the period January 1, 1964 to October 31, 1969 on Francana's land at no cost to Francana which resulted in 8 oil wells (1.13 net oil wells to Francana).

#### Current Program

A land position is being assembled in a highly prospective gas area in the foothills of Alberta. To date 1,760 acres have been acquired at Crown sale; an additional 4,640 acres are committed under farm-out agreement with a major company and negotiations are underway to acquire further lands. It is anticipated that a well will be drilled to approximately 12,000 feet in participation with others during 1970.

Two gas prospects at Crowfoot and Aden in Alberta have been drilled recently. The Aden well was a dry hole and the Crowfoot well resulted in an indicated gas discovery, the economic significance of which will be determined by further drilling.

Another prospect in the Strome area of central Alberta has been drilled recently and resulted in a 19 degree gravity oil discovery. Production tests have been conducted on this well with encouraging results and follow-up drilling is planned.

An oil prospect in the Zama-Deneb area is scheduled for the 1969-70 winter drilling season. In the Battrum area of Saskatchewan, Francana has completed a four-well drilling program on a group of prospects defined by a staff geological study. All of these wells were dry holes and the additional geological information is being reviewed to determine the further disposition of acreage holdings in this area.

A geological evaluation program has recently been completed in the field on lands held throughout the Northwest Territories by the Mackenzie Basin Group, which includes Francana as a 12% participant. This program includes surface geology and marine seismic. Following a review of the field data, a well may be drilled during 1970. A marine seismic program is planned for the 1970 season to evaluate the Nova Scotia offshore acreage. This program is expected to cost approximately \$300,000 and Francana is a 12½% participant.

Francana's Arctic Islands holdings, involving some 1,939,663 gross acres, are committed to the Panarctic Oils Ltd. ("Panarctic") Project. Under a variety of options, Panarctic, by conducting a total exploration program amounting to \$30,000,000 and by drilling a total of 24,000 feet in two or more wells on geological trends on or in proximity to the Francana lands, can earn up to an 85% working interest in the lands. In the case of Panarctic earning the maximum position, then the Francana lands will be carried at no cost to Francana until June 1, 1973. The current Panarctic Drake Point well on Melville Island, which is reported to have had several shows of hydrocarbons, is approximately 30 miles from the nearest boundary of Francana's holdings.

Francana is presently investigating the feasibility of doing seismic work and/or drilling on lands in the Gaspé Peninsula area of Quebec in 1970.

Francana will also conduct studies to determine appropriate methods to evaluate the Newfoundland offshore permit.

An oil discovery has been drilled by others on lands offsetting Francana lands in the Viewfield area of southeast Saskatchewan. The drilling group thus earned an option to drill a similar well on a portion of the Francana lands to earn a 50% interest. This earning well has been drilled and has confirmed oil production, which has been evaluated on production tests. Francana has the right to convert a gross overriding royalty interest on the 80-acre spacing unit of the earning well to a 50% working interest after payout and has converted a gross overriding royalty on the remaining 240 acres to a 50% working interest. In addition, Francana retains a 100% working interest on a 320-acre tract offsetting the earning well. Immediate development drilling is planned in the area.

An oil discovery has been drilled by others on lands offsetting Francana lands in the Parkman area of Saskatchewan. The drilling group has an option to drill a well on a 320-acre block of land farmed out from Francana. Francana retains a gross overriding royalty on the spacing unit of the earning well, with the further right to convert the remaining 240 acres to a 50% working interest position. Francana has recently participated to the extent of 50% in a successful development oil well in the Kiyiu Lake area of Saskatchewan.

Francana has acquired at Crown Sale a 25% interest in a 36,000-acre block in the Kelly Lake area of east central British Columbia. This area is considered to have deep Devonian gas potential. A program of evaluation for this permit is under consideration, together with additional land acquisitions along the geological trend.

A variety of farm-outs were made in southern Saskatchewan resulting in the recent drilling of six wells on Francana lands at no cost to Francana. This program has resulted in a successful off-pattern oil completion in the Souris Flats area and in the Hastings area; in both cases Francana retains a 20% gross overriding royalty. A successful oil completion was also made in the Queensdale area and Francana retains a sliding scale gross overriding royalty in this case. An off-pattern location drilled in the Willmar area resulted in a dry hole as did a drilling venture in the Gardenhead area. A well drilled in the Manitou Lake area yielded a heavy gravity oil show; a completion attempt was made but mainly salt water was recovered on production tests and, accordingly, the well is currently suspended.

In the Whitford Lake area of Alberta, a seismic program has been conducted and an evaluation well which was dry has been drilled, all at no cost to Francana. The further evaluation of this permit is under consideration. Recent drilling ventures in which Francana participated in the Gough Lake and Pakowki Lake areas of Alberta were unsuccessful and both wells were dry and abandoned. In the immediate future Francana will participate with others in the evaluation by drilling of prospects in the Wargen and Chinchaga areas of British Columbia, the Etzikom, Hamelin Creek, Holmberg and Marten Hills areas of Alberta. In addition, Francana will be a participant in a seismic program in the Mills Lake area of the Northwest Territories and, upon completion of this work, will have earned a 12½% interest in a 182,000 acre permit block. Francana has farmed out lands to others which will be evaluated by the drilling of one well in the Batrnum area of Saskatchewan and two wells in the Lac La Biche area of Alberta.

Francana also plans to bid singly and in participation with others for a variety of semi-proven and prospective lands at Crown sales. Such acquisitions will be sought in any area of Canada having hydrocarbon potential. Francana has plans for participation in a variety of other prospects in Alberta and British Columbia which are presently in the negotiation stage.

#### MINERAL INTERESTS

In addition to its holdings of oil and natural gas rights, Francana holds the following mineral interests:

Mineral	Location	Type of Ownership	Gross Acres	Net Acres
Helium	Saskatchewan	Leases	11,664	11,664
Uranium and base metals	Wollaston Lake	Prospecting Permit	192,000	192,000
Silver and copper	Mexico	Claims	4,475	559
			<u>208,139</u>	<u>204,223</u>

### **Saskatchewan Helium Leases**

The two helium leases that Francana holds in Saskatchewan are in the Eastend and Success areas of southwest Saskatchewan. A farm-out arrangement was negotiated in 1968 with Hudbay providing for joint drilling of exploratory wells. Drilling is contingent upon the results of an economic evaluation and market study that is presently underway. Francana's investment in these permits to date is approximately \$22,000.

Reference is made to this property in the report of James A. Lewis Engineering Co. Ltd. dated July 21, 1969 (confirmed December 17, 1969) and referred to under the heading "Properties".

### **Wollaston Lake Permit**

Francana acquired on December 16, 1968 a mineral prospecting permit covering approximately 192,000 acres in the Wollaston Lake area of Saskatchewan, approximately 40 miles from the Gulf Minerals Ltd. uranium discovery. Francana's investment in this permit to date is approximately \$34,000. The permit is prospective for uranium, nickel, copper, molybdenum and other base metals and during 1969 was evaluated by a three-system survey consisting of electromagnetic, magnetic and radiometric surveys. The main areas of interest as indicated by this survey will now be converted to claim blocks and further evaluation work is planned.

Reference is made to this property in the report of James A. Lewis Engineering Co. Ltd. dated July 21, 1969 (confirmed December 17, 1969) and referred to under the heading "Properties".

### **Mexico Claims**

Francana is a 12½% participant in the acquisition of mineral claims covering 4,475 gross acres in two areas of Mexico. These areas are considered to have silver and copper potential. The further evaluation of these claims is under consideration.

Reference is made to these properties in the report of James A. Lewis Engineering Co. Ltd. dated July 21, 1969 (confirmed December 17, 1969) and referred to under the heading "Properties".

## **INVESTMENTS**

Francana from time to time invests capital in other companies to further its policy of maximizing its exposure to domestic and foreign oil and natural gas discoveries.

### **Trend Exploration Limited**

In March 1969 Francana invested \$800,000 (U.S.) in Trend Exploration Limited ("Trend") by purchasing an 8% interest in its capital stock for \$400,000 (U.S.) and loaning to it \$400,000 (U.S.) at 7% interest per annum repayable at the rate of \$50,000 (U.S.) per annum commencing March 31, 1975. Trend is a privately-owned oil and gas exploration company with its head office in Denver, Colorado and district offices in Calgary, Alberta, New Orleans, Louisiana and London, England.

Trend has recently made oil discoveries in Wyoming, Colorado and Saskatchewan and development drilling is required to determine the significance of all of them. Trend is currently negotiating for oil and gas prospecting rights in England and Italy and it has a potential position, through priority permit applications, in Alaska.

### **Consumers Oil Company Limited**

In July 1969 Francana acquired a 6.15% interest in the capital of Consumers Oil Company Limited ("Consumers") at a cost of \$100,000. Consumers is a privately-owned oil and gas exploration and development company with its head office in Calgary, Alberta.

Consumers has oil reserves in the Milton area and gas reserves in the Marengo area of southwestern Saskatchewan and interests in land in the Mackenzie River area, the Arctic Islands and Alaska.

## **PLAN OF DISTRIBUTION**

Under an agreement dated December 30, 1969 made between Francana and Richardson Securities of Canada as underwriter ("Underwriter"), Francana agreed to sell and the Underwriter agreed to purchase,

as principal, all of the 700,000 common shares offered by this prospectus for a total consideration of \$3,220,000, payable in cash on delivery of certificates therefor, in definitive form, not later than February 14, 1970 subject to compliance with the necessary legal formalities and to the terms and conditions stated in the said agreement. The Underwriter is committed to take up and pay for all of the shares offered hereby if any of these shares are purchased under the said underwriting agreement.

Pursuant to the underwriting agreement dated December 30, 1969, the holders of the issued shares of Francana, other than the 700,000 common shares offered by this prospectus, have agreed with the Underwriter not to sell, dispose of, or otherwise deal in, directly or indirectly, any shares of Francana presently owned by them for a period of six months from the date of this prospectus without the prior written consent of the Underwriter.

### USE OF PROCEEDS

The proceeds to be derived by Francana from the sale of 700,000 shares offered by this prospectus (after deduction of expenses of the issue estimated at \$50,000) will be \$3,170,000. Francana intends to use these proceeds for the acquisition, exploration and development of oil, gas and other mineral properties in accordance with its method of operation as described on page 7 under the subheading "Policy" and on page 8 under the subheading "Current Program". Exploration and development activities will be conducted as circumstances warrant, both in areas in which rights are already held and in any newly-acquired areas. A portion of the proceeds may be used to acquire rights to explore new areas for oil, natural gas or other minerals, and to develop such areas if commercial production appears probable. The balance of the net proceeds will be added to the general funds of Francana. Until so used, the proceeds of this issue will be invested in trustee securities or their equivalent.

It is not Francana's intention to segregate the proceeds from funds now on hand or from future income and, accordingly, there is no specific allocation of the proceeds to any particular project. As and when, in the opinion of the management of Francana, expenditures are required to explore or develop Francana's properties or to acquire additional properties, the co-mingled funds of Francana from all sources, including the proceeds, will be used for such purposes.

### CAPITALIZATION

	Common Shares		Preferred Shares	
	Number	Amount	Number	Amount
Authorized (1)	10,000,000	No par value	14,000	\$1,400,000
Outstanding, October 31, 1969	4,233,000	\$2,699,000	14,000	\$1,400,000
Outstanding, November 30, 1969 (1)	4,233,000	2,699,000	14,000	1,400,000
To be outstanding on completion of this financing (1) (2)	4,933,000	5,919,000	14,000	1,400,000

#### NOTES:

- (1) The number of shares shown as authorized and the number of shares shown as outstanding give effect to the share subdivision and the increase in capital as set forth in Note 6 of "Notes to Financial Statements and Pro Forma Balance Sheet" on page 20.
- (2) Options are outstanding providing for the issue of 44,700 common shares as described under the heading "Options to Purchase Common Shares" on page 15.

## MANAGEMENT

### **Directors and Officers**

The names in full and home addresses of the directors and officers of Francana, the offices held by them in Francana, and their principal occupations within the five preceding years are as follows:

Name and Address	Office	Principal Occupation
Eric Singleton Austin 16 Wilket Road Willowdale, Ontario	President and Director	President, Hudbay since April 1966; prior to that time he held other executive positions with Hudbay.
Jean Debray 754 Wilder Avenue Outremont, Quebec	Executive Vice-President and Director	Executive Vice-President, Francana Development Corporation Ltd. since May 1966; prior to that time he held various executive positions with Francana.
Maurice Walcott Rush 297 Russell Hill Road Toronto, Ontario	Director	Chairman, Hudbay.
Bernard Lechartier 637 Sydenham Avenue Westmount, Quebec	Director	Vice-President and General Manager, Credit Foncier Franco-Canadien.
William Alexander Morrice 85 Laurentide Drive Toronto, Ontario	Director	Executive Vice-President, Hudbay since April 1969; prior to that time he held other executive positions with Hudbay.
Harold Arthur McKenzie 17 Tudor Gate Toronto, Ontario	Director	Executive Vice-President, Hudbay since April 1969; prior to that time he held other executive positions with Hudbay.
Michael Blythe Harding 379 Olivier Avenue Westmount, Quebec	Director	Vice-President, Francana Development Corporation Ltd. since February 1969; prior to that time he held other executive positions with Francana Development Corporation Ltd. since June 1967; prior to that time he was Assistant Vice-President and Secretary, Canadian Enterprise Development Corporation Ltd.
Kenneth Sheldon Dalton 1266 Catchacoma Court Port Credit, Ontario	Treasurer	Treasurer, Hudbay since July 1969; prior to that time he was Controller, Hudbay since April 1967; prior to that time he was a partner of Deloitte, Plender, Haskins & Sells.
John Lorne Carpenter 177 St. Leonard's Avenue Toronto, Ontario	Secretary	Secretary, Hudbay since July 1969; prior to that time he held executive positions with The Great-West Life Assurance Company.
Alfred John Williams 2752 Lionel Crescent S.W. Calgary 10, Alberta	Assistant Secretary	Administration Manager, Francana since May, 1969; prior to that time he held other executive positions with Francana.
Norman Douglas Knowles 182 Wildwood Drive S.W. Calgary 5, Alberta	General Manager	General Manager, Francana since May 1969; prior to that time he held other executive positions with Francana since June 1966; prior to that time he was Manager, Technical Department of Trans-Western Oils Ltd. (N.P.L.).

Francana maintains its own staff of geological, geophysical, engineering, field production and administrative personnel who conduct the regular business of Francana. If required, the services of outside consultants are employed.

### **Remuneration of Directors and Senior Officers**

No remuneration is paid to the directors of Francana for their services as directors of Francana. The aggregate remuneration paid by Francana to the directors and senior officers of Francana during its last completed financial year ended December 31, 1968 was \$83,240. The aggregate remuneration paid by Francana to the directors and senior officers of Francana from December 31, 1968 to November 30, 1969 was \$84,331. The cost to Francana of pension benefits for directors and senior officers for its last completed financial year ended December 31, 1968 was \$5,827.

The aggregate remuneration estimated to be payable by Francana to the directors and senior officers of Francana during the financial year ending December 31, 1969 is approximately \$90,000.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

1. Senior officers of Francana hold options to purchase 29,000 common shares. Other key employees hold options to purchase 15,700 common shares of Francana. See "Options to Purchase Common Shares" on page 15.

2. Prior to July 1967 Francana was committed to provide financing for part of the development of a potash project then owned by Sylvite of Canada Ltd. and situated near Rocanville, Saskatchewan. In December 1968 Hudbay took over complete control of the potash project through the purchase of the entire assets of Sylvite of Canada Ltd., and upon the liquidation of that company, Francana Development Corporation Ltd. and Anmercosa Investments Limited received 87,500 shares and 29,167 shares in Hudbay, respectively.

3. Hudbay owns 8,400 Preferred Shares of Francana and Francana Development Corporation Ltd. owns 5,600 Preferred Shares of Francana. See "Summary Description of 5% Cumulative Redeemable Convertible Preferred Shares" below.

### **SUMMARY DESCRIPTION OF 5% CUMULATIVE REDEEMABLE CONVERTIBLE PREFERRED SHARES**

The 14,000 authorized, issued and outstanding 5% Cumulative Redeemable Convertible Preferred Shares of the par value of \$100 each ("Preferred Shares") are owned 60% by Hudbay and 40% by Francana Development Corporation Ltd. See "Interest of Management and Others in Material Transactions" above, "Dividends" on page 14 and Note 6 of "Notes to Financial Statements and Pro Forma Balance Sheet" on page 20. The Preferred Shares have attached thereto, among others, provisions to the following effect:

#### **Dividends**

The holders of the Preferred Shares are entitled to fixed, cumulative, preferential dividends at the rate of 5% per annum, payable half-yearly.

#### **Liquidation**

Upon liquidation, dissolution or winding-up of Francana or other distribution of assets among the shareholders by way of return of capital, the holders of the Preferred Shares are entitled to receive the sum of \$100 per share plus all unpaid cumulative dividends accrued to the date of distribution, in priority to any distribution to the holders of the common shares or any other shares of Francana ranking junior to the Preferred Shares.

#### **Voting**

Whenever Francana is in default in the payment of dividends on the Preferred Shares for two full years or in payment of four semi-annual dividends, the holders of such shares shall be entitled to one vote for each share held.

#### **Redemption**

On or before September 30 in each of the years 1970 to 1973, Francana is required to set aside, in a special account on its books as a retirement fund for the Preferred Shares, \$320,000 in 1970, \$340,000 in 1971, \$360,000 in 1972 and \$380,000 in 1973. These amounts are to be applied on September 30 in each

year or as soon as practicable thereafter to the pro rata redemption of Preferred Shares outstanding so that, unless previously converted into common shares, all of the Preferred Shares are to be redeemed by September 30, 1973.

#### Conversion

The Preferred Shares are convertible into common shares at the option of the holder and upon notice from the holder to Francana on or before September 23 in each of the years indicated and upon the following basis:

- (i) On October 1, 1970 at a conversion price of \$6.40 per common share as to not more than \$320,000 aggregate par value of Preferred Shares converted;
- (ii) On October 1, 1971 at a conversion price of \$6.80 per common share as to not more than \$340,000 aggregate par value of Preferred Shares converted;
- (iii) On October 1, 1972 at a conversion price of \$7.20 per common share as to not more than \$360,000 aggregate par value of Preferred Shares converted;
- (iv) On October 1, 1973 at a conversion price of \$7.60 per common share as to not more than \$380,000 aggregate par value of Preferred Shares converted.

### THE COMMON SHARES

The authorized common share capital of Francana consists of 10,000,000 common shares without nominal or par value of which 4,933,000 common shares will be issued and outstanding as fully paid and non-assessable on completion of this financing. The common shares of Francana will rank equally in respect to dividends as and when declared by the Board of Directors; are entitled to one vote per share at all meetings of shareholders; are entitled upon a winding-up, liquidation, or other distribution to receive equally such assets of Francana as are distributable to holders of common shares; and have no pre-emptive or conversion rights.

#### Dividend Record

#### DIVIDENDS

The following is the dividend record with respect to the outstanding common shares of Francana, adjusted for the share subdivision as set forth in Note 6 of "Notes to Financial Statements and Pro Forma Balance Sheet" on page 20, for each of the periods shown.

Period Ended	Number of Common Shares Outstanding	Dividend per Common Share	Total Dividends
December 31, 1964	3,000,000	.050	150,000
December 31, 1965	4,000,000	.045	180,000
December 31, 1966	4,000,000	—	—
December 31, 1967	4,233,000	.095	402,135
December 31, 1968	4,233,000	.100	423,300
November 30, 1969	4,233,000	.100	423,300

In addition to the cash dividend, a stock dividend was paid on September 15, 1969 to common shareholders by issuance of 14,000 Preferred Shares of the par value of \$100 per share. See "Summary Description of 5% Cumulative Redeemable Convertible Preferred Shares" on page 13.

#### Dividend Policy

It is anticipated that Francana will discontinue the payment of dividends on its common shares and that future earnings will be retained to finance further development and expansion of Francana's business. Any decision to pay dividends on the common shares in the future will be made by the Board of Directors on the basis of Francana's earnings, financial requirements and other conditions existing at such time. Payment of dividends on common shares is restricted by the dividend right attaching to the Preferred Shares.

### PRINCIPAL HOLDERS OF COMMON SHARES

The following companies each owned, directly or indirectly, of record and beneficially on the dates indicated, more than 10% of the issued and outstanding common shares of Francana:

Name and Address	Number of Shares Owned Beneficially but not of Record at November 30, 1969(1)	Number of Shares Owned Beneficially and of Record at November 30, 1969(1)	Percentage of Issued Shares Owned Beneficially at November 30, 1969	Percentage of Issued Shares to be Owned Beneficially after this Financing
Hudson Bay Mining and Smelting Co., Limited, P.O. Box 28, Toronto-Dominion Centre, Toronto 1, Ontario.	4	2,539,796	60%	51.49%
Francana Development Corporation Ltd., 612 St. James Street West, Montreal, Quebec.	3	1,693,197	40%	34.32%
	<u>7</u>	<u>4,232,993</u>	<u>100%</u>	<u>85.81%</u>

**NOTE:**

(1) Adjusted for the share subdivision as set forth in Note 6 of "Notes to Financial Statements and Pro Forma Balance Sheet" on page 20.

As of November 30, 1969 the directors and senior officers of Francana, as a group, owned directly or indirectly, of record but not beneficially, seven shares of Francana.

### OPTIONS TO PURCHASE COMMON SHARES

Francana has established an Incentive Share Option Plan under which 75,000 authorized but unissued common shares are reserved for stock options which may be granted to key employees and senior officers of Francana. Under the plan, the term of an option may not exceed five years and options are exercisable as to one-fifth of the aggregate number of shares optioned during each of the five years on a cumulative basis. In the event of termination of employment, all unexercised options will be cancelled. At the date of this prospectus options to purchase 44,700 common shares have been granted, all at a price of \$4.66 per share. The plan provides that the purchase price in any further options granted thereunder shall be not less than 95% of the price at which the last transaction in the common shares of Francana took place on The Toronto Stock Exchange on the date on which such option is granted.

### MATERIAL CONTRACTS

Particulars regarding material contracts entered into by Francana within the two years preceding the date hereof, other than contracts in the ordinary course of business, are as follows:

1. An underwriting agreement dated October 2, 1969 made between Francana and Richardson Securities of Canada which was not acted upon and which was terminated by mutual consent of the parties.
2. The underwriting agreement dated December 30, 1969 made between Francana and Richardson Securities of Canada, referred to under the heading "Plan of Distribution" on page 10.

Copies of the foregoing agreements may be inspected at the head office of Francana at 401 Pacific 66 Plaza, 700 - 6th Avenue S.W., Calgary, while the shares offered by this prospectus are in the course of primary distribution and for 30 days thereafter.

### AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of Francana are Deloitte, Plender, Haskins & Sells, Chartered Accountants, 240 - 4th Avenue S.W., Calgary.

The Royal Trust Company at its principal office in Toronto is the registrar and at its principal offices in Halifax, Montreal, Toronto, Winnipeg, Calgary and Vancouver is the transfer agent for the common shares of Francana. The Royal Trust Company at its principal office in Toronto is the registrar and transfer agent for the Preferred Shares of Francana.

## AUDITORS' REPORTS

To the Directors  
Francana Oil & Gas Ltd.

We have examined the balance sheet of Francana Oil & Gas Ltd. as at December 31, 1968 and the statements of income, retained earnings and source and application of funds for the two years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1968 and the results of its operations and the source and application of its funds for the two years then ended in accordance with generally accepted accounting principles applied on a consistent basis as explained in Note 2 to financial statements and pro forma balance sheet.

December 30, 1969  
Calgary, Alberta

Deloitte, Plender, Haskins & Sells  
Chartered Accountants

To the Directors  
Francana Oil & Gas Ltd.

We have examined the statements of income, retained earnings and source and application of funds of Francana Oil & Gas Ltd. for the years ended December 31, 1964, 1965 and 1966. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these statements present fairly the results of the operations and the source and application of the funds of Francana Oil & Gas Ltd. for the years ended December 31, 1964, 1965 and 1966 in accordance with generally accepted accounting principles applied consistently throughout the three year period as explained in Note 2 to financial statements and pro forma balance sheet.

December 30, 1969  
Montreal, Quebec

Samson, Bélair, Côté, Lacroix et Associés  
Chartered Accountants

**FRANCANA OIL & GAS LTD.**  
 (Incorporated under the Canada Corporations Act)  
 Balance Sheets as at December 31, 1968 and as at October 31, 1969  
 and Pro Forma Balance Sheet as at October 31, 1969

	Assets	(audited) Balance Sheet December 31, 1968	(unaudited) Balance Sheet October 31, 1969	(unaudited) Pro Forma Balance Sheet October 31, 1969 (Note 1)
<b>Current Assets:</b>				
Cash	\$ 8,790	\$ (8,587)	\$ 3,161,413	
Short term bank deposits	950,000	—	—	
Accounts receivable	251,342	232,343	232,343	
<b>Inventories:</b>				
Materials and supplies, at or below cost	18,032	22,294	22,294	
Crude oil, at posted field prices	17,471	17,471	17,471	
Special refundable taxes	19,859	12,959	12,959	
Income taxes recoverable	307	—	—	
Total current assets	1,265,801	276,480	3,446,480	
<b>Investments and Other Assets—at cost:</b>				
Investments and advances to other companies (Note 3)	—	961,501	961,501	
Refundable deposits and other	61,887	73,013	73,013	
Marketable securities (quoted market value \$25,900)	16,273	—	—	
Total investments and other assets	78,160	1,034,514	1,034,514	
<b>Property and Equipment (Note 4)</b>		5,292,222	5,876,614	5,876,614
Total	\$ 6,636,183	\$ 7,187,608	\$ 10,357,608	
	<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities:</b>				
Bank loans	\$ —	\$ 100,000	\$ 100,000	
Accounts payable	25,401	15,403	15,403	
Taxes	—	79,083	79,083	
Total current liabilities	25,401	194,486	194,486	
<b>Deferred Income Taxes (Note 5)</b>		1,517,000	1,722,000	1,722,000
<b>Shareholders' Equity:</b>				
<b>Capital stock (Note 6):</b>				
Balance sheet as at December 31, 1968:				
Authorized — 500,000 common shares of no par value				
Issued and fully paid — 211,650 shares	2,699,000	—	—	
Balance sheet and pro forma balance sheet as at October 31, 1969:				
Authorized — 14,000 5% cumulative redeemable convertible preferred shares of a par value of \$100 each				
and 10,000,000 common shares of no par value				
Issued and fully paid				
— 14,000 preferred shares	—	1,400,000	1,400,000	
— 4,233,000 common shares (balance sheet)	—	2,699,000	—	
— 4,933,000 common shares (pro forma balance sheet)	—	—	5,919,000	
Retained earnings	2,394,782	1,172,122	1,122,122	
Total shareholders' equity	5,093,782	5,271,122	8,441,122	
Total	\$ 6,636,183	\$ 7,187,608	\$ 10,357,608	

Approved by the Board:

E. S. Austin, Director

Jean Debray, Director

*The accompanying notes are an integral part of the financial statements*

**FRANCANA OIL & GAS LTD.**

**Statement of Income**

	Ten Months Ended October 31,			Year Ended December 31,		
	1969 1968 (unaudited)	1968 (unaudited)	1968	1967	1966	1965
<b>Income:</b>						
Production and other operating revenue—after deduction of royalties (Note 7)	\$ 1,728,447	\$ 1,675,080	\$ 2,051,925	\$ 2,026,242	\$ 1,948,016	\$ 2,002,774
<b>Expenses:</b>						
Operating	233,694	233,686	310,916	256,702	236,655	295,860
General and administrative	235,176	171,247	210,663	176,187	175,402	236,383
Depreciation and depletion (Note 2)	421,585	336,773	426,689	438,382	343,136	410,356
Interest on short-term debt	1,120	252	266	1,617	—	—
Total expenses	891,575	741,958	948,534	872,883	755,193	942,599
Income before income taxes and extraordinary items	836,872	933,122	1,103,391	1,153,354	1,192,823	1,060,175
Provision for income taxes:						
Current	103,083	92,816	30,173	38,801	78,000	—
Deferred (Note 5)	182,000	229,000	344,000	350,000	321,000	844,000
	285,083	321,816	374,173	388,801	399,000	344,000
Income before extraordinary items	551,789	611,306	729,218	764,553	793,823	716,175
Extraordinary items (Note 8)	10,598	—	1,686	14,035	116,234	50,492
Net income for the period (Note 2)	\$ 562,387	\$ 611,306	\$ 730,904	\$ 778,588	\$ 910,057	\$ 766,667
<b>Statement of Retained Earnings</b>						
Balance at beginning of the period	\$ 2,394,782	\$ 2,058,275	\$ 2,058,275	\$ 1,629,940	\$ 841,943	\$ 612,705
Add net income for the period	562,387	611,306	730,904	778,588	910,057	766,667
	2,957,169	2,669,581	2,789,179	2,408,528	1,752,000	1,379,372
Deduct:						
Dividends paid (Note 9)	1,823,300	423,300	423,300	402,135	—	180,000
Deferred income tax adjustment (Note 2)	—	—	—	—	—	—
Full cost accounting adjustment (Note 2)	(38,253)	(2,561)	(28,903)	(51,882)	122,060	357,429
Balance at end of the period	\$ 1,172,122	\$ 2,248,842	\$ 2,394,782	\$ 2,058,275	\$ 1,629,940	\$ 841,943

The accompanying notes are an integral part of the financial statements

**FRANCANA OIL & GAS LTD.**

**Statement of Source and Application of Funds**

	Ten Months Ended October 31,			Year Ended December 31,		
	1969 (unaudited)	1968 (unaudited)	1968	1967	1966	1965
<b>Funds Provided:</b>						
Net income for the period (Note 2)	\$ 562,387	\$ 611,306	\$ 730,904	\$ 778,588	\$ 910,057	\$ 766,667
Depreciation and depletion (Note 2)	421,585	336,773	426,689	438,382	343,136	410,356
Deferred income taxes (Note 5)	182,000	229,000	344,000	350,000	321,000	344,000
Extraordinary items (Note 8)	(10,598)	—	(1,686)	(14,035)	(116,234)	(50,492)
Total funds provided from operations	1,155,374	1,177,079	1,499,907	1,552,935	1,457,959	1,470,531
Sale of investments and return of advances made to other companies	26,871	—	—	1,762,251	534,447	230,603
Refundable deposits and other items returned	5,000	26,604	34,615	10,569	70	1,000
Sale of capital stock	—	—	—	699,000	—	500,000
Sale of property and equipment	19,033	—	28,797	8,065	14,238	28,147
Total funds provided	1,206,278	1,203,683	1,563,319	4,032,820	2,006,714	2,230,281
<b>Funds Applied:</b>						
Additions to properties and equipment	963,757	900,242	1,356,164	1,406,344	853,539	1,206,866
Increase in investments and advances to other companies (Note 3)	961,501	—	—	400,000	752,626	872,361
Increase in refundable deposits and other items - Dividends paid (Note 9)	16,126	—	28,943	16,215	31,693	1,031
Total funds applied	423,300	423,300	423,300	402,135	—	180,000
(Decrease) Increase in working capital for the period	2,364,684	1,323,542	1,808,407	2,224,694	1,637,858	2,260,258
Working capital (Deficiency) at beginning of the period	(1,158,406)	(119,859)	(245,088)	1,808,126	368,856	(29,977)
Working capital (Deficiency) at end of the period	1,240,400	1,485,488	1,485,488	(322,638)	(691,494)	(661,517)
Working capital (Deficiency) at end of the period	\$ 81,994	\$ 1,365,629	\$ 1,240,400	\$ 1,485,488	\$ (322,638)	\$ (691,494)

*The accompanying notes are an integral part of the financial statements*

## FRANCANA OIL & GAS LTD.

### Notes to Financial Statements and Pro Forma Balance Sheet

#### 1. PRO FORMA TRANSACTIONS:

The pro forma balance sheet as at October 31, 1969 gives effect to the issue and sale, pursuant to an underwriting agreement dated December 30, 1969 between the Company and Richardson Securities of Canada, of 700,000 common shares of the Company's capital stock for \$3,220,000 cash and the payment and deduction from retained earnings of estimated expenses of \$50,000 in connection therewith.

#### 2. CHANGES IN ACCOUNTING PRACTICE AND RESTATEMENT:

In 1966 the Company changed its method of accounting for income taxes from the taxes payable basis to the deferred tax basis described in Note 5. In order to give retroactive effect to this change, the net income for the years 1965 and 1964 has been reduced by \$170,000 and \$201,000 respectively, and the balance of retained earnings at January 1, 1964 has been reduced by \$119,000.

Commencing January 1, 1967 the Company adopted the full cost method of accounting whereby all costs (except technical and administrative overhead) relating to the exploration for and development of oil and gas reserves are capitalized, whether productive or unproductive. Proceeds from the disposal of properties are deducted from net asset costs without recognition of profit or loss. Depletion of oil and gas properties is computed on the total of all such costs by the composite unit of production method based on total estimated recoverable reserves. Depreciation of production equipment is computed in a similar manner. In order to present the statement of income on a comparable basis, it has been restated to show the results of operations as they would have appeared had the full cost method of accounting been in effect throughout the entire period covered by such statements. Since the accounts of the Company prior to January 1, 1967 were not adjusted for this change in accounting method, the retroactive effect has been reversed in the statement of retained earnings.

In addition, certain extraordinary items described in Note 8, which were formerly included in retained earnings, have now been included in the determination of net income.

#### 3. INVESTMENT AND ADVANCES TO OTHER COMPANIES:

The Company has invested \$400,000 (U.S.) for 8% of the common shares of Trend Exploration Limited and \$100,000 for 6.15% of the capital stock of Consumers Oil Company Limited, both private companies for which there are no quoted market values. In addition, the Company has loaned Trend Exploration Limited \$400,000 (U.S.) repayable at the rate of \$50,000 (U.S.) per year commencing on March 31, 1975 with interest at 7% per annum. The value of these investments and advances are dependent upon the success of these companies' exploration and development operations.

#### 4. PROPERTY AND EQUIPMENT:

December 31, 1968

	<u>Cost</u>	<u>Accumulated depletion and depreciation</u>	<u>Net</u>
	\$	\$	\$
Petroleum and natural gas properties .....	5,804,020	1,549,895	4,254,125
Production equipment .....	2,309,999	1,299,023	1,010,976
Other equipment and improvements .....	50,478	23,357	27,121
	<u>8,164,497</u>	<u>2,872,275</u>	<u>5,292,222</u>

October 31, 1969

	<u>\$</u>	<u>\$</u>	<u>\$</u>
Petroleum and natural gas properties .....	6,620,320	1,836,362	4,783,958
Production equipment .....	2,408,572	1,361,904	1,046,668
Other equipment and improvements .....	80,329	34,341	45,988
	<u>9,109,221</u>	<u>3,232,607</u>	<u>5,876,614</u>

#### 5. DEFERRED INCOME TAXES:

For income tax purposes the Company is entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which may exceed the related depletion and depreciation provision reflected in the accounts. The Company takes all timing differences into account for tax allocation purposes and the charges against income for deferred income taxes are accumulated on the balance sheet as applicable to those future periods when the amounts claimed for tax purposes may be less than those recorded in the accounts.

## 6. CAPITAL STOCK:

Supplementary letters patent dated August 20, 1969 provided for the subdivision of the Company's 500,000 authorized common shares (including 211,650 issued common shares) on the basis of 20 for 1 and for an increase in authorized capital by the creation of 14,000 5% cumulative, redeemable, convertible, preferred shares of \$100 par value.

The preferred shares are to be redeemable at par on a pro-rata basis commencing September 30, 1970 and extending over a four year period ending September 30, 1973 at a rate of approximately \$350,000 per year, or they may be converted to common shares during the same period at the election of the holder at conversion prices escalating from \$6.40 to \$7.60 per common share.

75,000 common shares have been reserved for issuance to key employees and senior officers under an incentive stock option plan. Options to purchase 44,700 shares have been granted at a price of \$4.66 per share. The term of options may not exceed five years and are exercisable up to 1/5 of the aggregate number of shares optioned during each of the five years on a cumulative basis. Under the plan future grants will not be less than 95% of the closing price of the Company's common shares as reported by The Toronto Stock Exchange on the date at which the options are granted.

## 7. INVESTMENT INCOME:

Included in production and other operating revenue are the following amounts of investment income:

	\$
1964	3,869
1965	5,159
1966	4,571
1967	5,723
1968	45,308
1968 (ten months)	30,328
1969 (ten months)	41,082

## 8. EXTRAORDINARY ITEMS:

	Gains on Sale of Marketable Securities	Profits (Losses) on Disposal of Fixed Assets	Total
	\$	\$	\$
1964	12,482	(830)	11,652
1965	48,186	2,306	50,492
1966	118,184	(1,950)	116,234
1967	14,035	—	14,035
1968	—	1,686	1,686
1969 (ten months)	10,598	—	10,598

During the years 1964, 1965 and 1966 gains on sale of marketable securities shown above were included in capital surplus account which subsequently was transferred to retained earnings.

## 9. DIVIDENDS PAID

Dividends paid represent cash dividends paid to common shareholders except for a stock dividend of \$1,400,000 which was paid during the 10 months ended October 31, 1969 and was satisfied by the allotment and issue of 14,000 preferred shares of \$100 par value.

The aforementioned 14,000 preferred shares were the only shares issued by the Company during the 5 years ended December 31, 1968 and the 10 months ended October 31, 1969 for a non-cash consideration.

## PURCHASER'S STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

The Securities Act, 1966 (Ontario), The Securities Act, 1968 (Manitoba), The Securities Act, 1967 (Saskatchewan) and The Securities Act, 1967 (Alberta) provide, in effect, that where a security is offered to the public in the course of primary distribution:

- (a) a purchaser will not be bound by a contract for the purchase of such security if written or telegraphic notice of his intention not to be bound is received by the vendor or his agent not later than midnight on the second business day after the prospectus or amended prospectus offering such security is received or is deemed to be received by him or his agent; and
- (b) a purchaser has the right to rescind a contract for the purchase of such security, while still the owner thereof, if the prospectus or any amended prospectus offering such security contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement therein not misleading in the light of the circumstances in which it was made, but no action to enforce this right can be commenced by a purchaser after the expiration of 90 days from the later of the date of such contract or the date on which such prospectus or amended prospectus is received or is deemed to be received by him or his agent.

The Securities Act, 1967 (British Columbia) provides, in effect, that a purchaser has a right of rescission similar to that described in (b) above; and also that a purchaser has the right to rescind a contract for the purchase of a security, while still the owner thereof, if a copy of the last prospectus, together with financial statements and reports and summaries of reports relating to the securities, as filed with the British Columbia Securities Commission, was not delivered to him or his agent prior to delivery to either of them of the written confirmation of the sale of the securities, but written notice of intention to commence an action for such rescission must be served on the person who contracted to sell within 60 days of the date of delivery of the written confirmation, and no action shall be commenced after the expiration of 3 months from the date of service of such notice.

Reference is made to the said Acts for the complete texts of the provisions under which the foregoing rights are conferred and the foregoing summaries are subject to the express terms of such Acts.

## **CERTIFICATE OF FRANCANA**

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Section 13 of the Securities Act (New Brunswick), under the Securities Act (Quebec), by Part VII of The Securities Act, 1966 (Ontario) and the regulations thereunder, by Part VII of The Securities Act, 1968 (Manitoba) and the regulations thereunder, by Part VIII of The Securities Act, 1967 (Saskatchewan) and the regulations thereunder, by Part 7 of The Securities Act, 1967 (Alberta) and the regulations thereunder and by Part VII of the Securities Act, 1967 (British Columbia) and the regulations thereunder.

Dated: December 30, 1969

E. S. Austin  
President  
Chief Executive Officer

K. S. Dalton  
Treasurer  
Chief Financial Officer

On behalf of the Board of Directors by:

## **DIRECTORS**

E. S. Austin

Jean Debray

M. B. Harding

B. Lechartier

H. A. McKenzie

W. A. Morrice

Maurice W. Rush

## CERTIFICATE OF THE UNDERWRITER

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Section 13 of the Securities Act (New Brunswick), under the Securities Act (Quebec), by Part VII of The Securities Act, 1966 (Ontario) and the regulations thereunder, by Part VII of The Securities Act, 1968 (Manitoba) and the regulations thereunder, by Part VIII of The Securities Act, 1967 (Saskatchewan) and the regulations thereunder, by Part 7 of The Securities Act, 1967 (Alberta) and the regulations thereunder and by Part VII of the Securities Act, 1967 (British Columbia) and the regulations thereunder.

Dated: December 30, 1969

RICHARDSON SECURITIES OF CANADA

By: G. P. Nares

The following is the name of the only person having an interest, either directly or indirectly, to the extent of not less than 5% in the capital of Richardson Securities of Canada: George T. Richardson.